

III.B.1.a

MEMO TO: City Council

FROM: Lenda Crawford, Finance Director

DATE: July 5, 2006

SUBJECT: **STAFF REPORT: Financial Status Report for the period January 1, 2005 through March 31, 2006**

This report summarizes the financial performance of the major City funds, including the General, Enterprise and Capital Improvement Program funds for the first fifteen months of the biennium, covering the period **January 1, 2005 through March 31, 2006**. Detailed tables supporting the analysis are included as appendices to this report.

Staff will be present at the July 5 Council meeting to answer any questions on the report. If you have questions prior to that time, please contact me at 425.556.2160 or Martin Chaw at 425.556.2165.

EXECUTIVE SUMMARY

General Fund

Although the City will be able to live within its means in 2005-06, challenges lie ahead. Sales tax collections are weak and ongoing revenues are still not sufficient to sustain ongoing operations. It is important to remember that the budget includes a significant amount of one-time money (\$2.4 million) to support programs and services. These resources were added as a temporary stop gap measure to curtail the hemorrhaging of General Fund services after several years of extensive cost cutting and provide the Council additional time to develop a long range strategic plan to address the critical and most immediate needs of the community. While the Council has taken some actions to enhance the revenue base, such as raising development review fees and increasing the utility tax from 5.8% to 6%, the failure of the property tax levy lid lift in May has raised questions about how the City will close the existing fiscal gap, address existing deficiencies and ensure Redmond is no less tomorrow than it is today.

Economic activity alone will not provide the City with a sustainable solution. Sales tax, the General Fund's largest revenue source, has languished despite an improvement in the regional economy. Collections are flat in comparison to the previous biennium and up only 2.7% from 1999/2000. The following table illustrates how Redmond is performing relative to other surrounding jurisdictions. As shown below, while City collections were unchanged, other entities posted double digit increases. Our closest neighbors, Bellevue, Kirkland and Issaquah, saw a 15% to 18% increase, Bothell was up 28.7% and unincorporated King County posted a gain of 14%. The persistent weakness in the City's largest revenue source coupled with the rising cost of services underscores the continued fiscal challenges in the City's General Fund.

Sales Tax Collections by Jurisdiction
January 2005- March 2006 vs January 2003-March 2004

Jurisdiction	2003-04	2005-06	% Change
Bothell (King Co only)	\$9.5	\$12.2	28.7%
Bellevue	44.9	52.9	17.8%
Kirkland	15.7	18.4	17.3%
Issaquah	10.9	12.5	15.3%
Unincorporated King County	84.9	96.8	14.0%
Seattle	139.3	156.6	12.4%
Renton	20.0	21.8	9.0%
Tukwila	19.5	20.7	6.4%
Redmond	21.7	21.7	unchanged

Source: Wa. State Department of Revenue; *Sales Taxes are a major source of revenue to the City of Redmond and accounts for one-third of the resources needed to support operations.*

Enterprise Funds

While all three Utilities are within budget, there are major issues surrounding each of these funds as explained below.

In-City Water/Wastewater Utility

The financial condition of the City's Water/Wastewater Utility continued to deteriorate due to a 7.4% decline in consumption. Rate revenue, which is the primary source of income for the Utility, showed little growth over the last biennium despite a 2% increase in rates. The

Utility incurred an operating loss of \$618,000 for the first quarter of 2006 compared to a loss of \$507,000 in 2005. While water sales are expected to improve with higher usage during the summer, the size of the operating loss is of concern. The City experienced a similar situation in 2005 and was barely able to stay positive for the year posting income from operations of only \$93,000. This compares to operating income of approximately \$1.5 million in 2004.

Urban Planned Developments (UPDs) Water/Wastewater Utility

This Utility ended the period with an operating loss consistent with trends of prior years. The losses in 2005 and 2006 were \$424,000 and \$387,600, respectively, which are not unusual for this time of the year. Until build-out occurs in the UPDs, the expectations are that rate revenue will not be sufficient to cover the cost of operations including depreciation and cash balances will be needed to sustain operations.

Stormwater Management Utility

While revenues for this Utility were sufficient to pay for approved activities, it is important to note that the Stormwater Capital Improvement Program (CIP) is only partially compliant with environmental regulations. Transfers to the CIP are down \$900,000 reflecting the Council's decision to continue the current \$11.50 monthly rate which did not provide sufficient funding to fully support the needs of the construction program. Council committed to review this decision prior to the end of the 2005-06 biennium and a meeting has been scheduled in late July for this purpose.

Rate studies are currently underway for all three of the Utilities to review their operating, capital and revenue requirements. Findings, conclusions and recommendations from the studies are scheduled to be discussed with Council in July/August of this year.

Capital Investment Program

Unlike the funds previously discussed, the CIP continues to fare extremely well with cash balances of \$35 million. In addition, revenues are coming in stronger than expected at 82% of budget (a more normal collection rate would be 62.5%) led primarily by higher than anticipated real estate excise taxes. The expenditure rate is 42% with the greatest levels of spending in Transportation, Parks and General Government (mostly City Hall).

Delving deeper in CIP finances, you will find that the City's capital program is underwritten with a large amount of general funding. In 2005-2006, \$16 million or approximately 14.5% of General Fund resources will be earmarked for capital projects.

Summary of General Funding Used to Support CIP in 2005-06 (\$ in millions)

	Amount
5% General Fund Transfer	\$ 4.9
Sales tax on construction	2.2
Lease Savings due to staff consolidation at New City Hall	0.7
Additional contribution for City Hall	0.3
Pavement Management Program	0.6
Business Tax Surcharge	7.3
Total General Funding to CIP	\$ 16.0
% of General Fund 05-06 Budget	14.5%

To determine how Redmond's contribution compared to other cities, the Public Administration and Finance Committee requested a mini survey in 2005 of several jurisdictions' capital investment policies as part of the City's Fiscal Policy review. This information was later shared with the full Council. The cities surveyed included Bellevue, Kirkland, Woodinville, Everett, Renton, and Kent. *Of these six cities, Redmond provided the highest level of general funding to its Capital Improvement Program and had one of the lowest property tax rates* as shown in the chart below.

**Summary of Survey of 2005 Levy Rates and General Resources
Used to Support CIP for Surrounding Cities**

Cities	2005 Levy Rate	Level of General Fund Support	Funding Sources
Kirkland	\$1.49	1.6%	Sales tax
Woodinville	1.37	1.5%	Utility & Admission taxes)
Everett	3.60	0%	No dedicated sources
Renton	3.23	0%	No dedicated sources
Kent	2.93	8.5%	Sales tax
Bellevue	1.23	5.6%	5.6% of General Fund after adjusting for 50% of sales tax which is returned to the General Fund for m&o (sources: sales and b&o taxes)
Redmond	1.59*	14.5%	See above chart

* Note: Redmond's 2006 levy rate declined to \$1.23 due to the retirement of 1992 general obligation bonds for the Public Safety Building, Senior Center and three street projects.

In contrast, the next highest city is Kent, which contributes 8.5% of general revenues to the CIP, but its property tax levy rate is twice as high as Redmond's.

As compared with other cities, this analysis suggests the **City may wish to revisit its CIP policies to ensure its General Fund capital contributions are scaled relative to General Fund operational and service needs.** Further supporting this conclusion is the fact that the CIP is reporting a cash balance of \$35 million; while the General Fund's cash position is \$5 million. **Simply put, Redmond cannot remain a full-service city relative to other jurisdictions when it shifts such a disproportionately large share of its General Fund resources to the CIP.**

GENERAL FUND

Overall, revenues were sufficient to meet expenditures. This was primarily due to two reasons: 1) the one-time funding of \$2.4 million in the 2005-06 budget to support operations and 2) expenses being artificially low as a result of outstanding labor obligations. If these adjustments were taken into consideration, the picture would be different -- ongoing revenues would not cover ongoing costs. Setting this issue aside for now, it is anticipated that the General Fund will meet or slightly exceed budget on the revenue side. Sales tax is still weak but this weakness is being offset by higher property tax, electric and natural gas utility taxes, business license and development review fees as discussed below.

Revenues

Overall, General Fund revenues are showing a slight improvement when compared to the previous biennium. Excluding the economic contingency of \$1.7 million, collections are at 62% of budget compared to 61% in the previous period. Higher property assessments for the state's public utilities, recent rate increases from Puget Sound Energy for electric and natural gas, and an upturn in development activity have improved overall results. While a pick-up in sales tax activity was seen during the first quarter of 2006, collections are still flat suggesting a note of caution. In addition, telephone utility tax, which is the City's fourth largest revenue, was down 5% when compared to the previous biennium.

Below is a summary of the major variances noted in General Fund revenues.

- **Sales tax**, which represents the City's largest revenue source, totaled \$21.7 million or 59% of budget and was virtually unchanged when compared to the last biennium and only 2.7% higher than the amounts received in 1999/2000.

15-Month Comparison of Sales Tax Collections for the Last Four Bienniums

Biennium	First 15 months of collections (\$M)
1999-2000	\$21.1
2001-2002	\$19.1
2003-2004	\$21.7
2005-2006	\$21.7
% Change - 2005-06 v 2003-04	unchanged
% Change - 2005-06 v 1999-2000	2.7%

Redmond's sales tax collections continue to lag those of other surrounding cities and unincorporated King County. Many of these entities have seen double-digit increases while Redmond's sales taxes remained flat. The retail and construction sectors in Redmond are up 13% and 29%, respectively. However, declines in business services and telecommunications continue to hurt overall growth.

Redmond Sales Tax Collections
Current Biennium vs. Previous Biennium

Classification	2005-06 Jan - Mar	2003-04 Jan - Mar	percent change
Construction	\$3.5	\$2.8	29%
Business Services	\$4.0	\$4.7	-13%
Retail	\$9.3	\$8.2	13%
Wholesale	\$2.8	\$2.8	1%
Manufacturing	\$0.6	\$0.6	-9%
Telecommunications	\$1.4	\$2.7	-48%
Grand Total	\$21.7	\$21.7	0%

Source: Wa. State Department of Revenue.

- **Telephone utility taxes** are down as the market shifts away from land lines to cheaper alternatives such as cellular, long distance phone cards and internet based telephone services. Collections of \$3.8 million are 5% below the previous biennium. While cellular phones showed a modest 2.2% increase over the prior biennium, revenues from land lines declined 18% and long distance fell 14%.
- No additional revenue is expected from **finances and forfeitures** in 2006 as King County began retaining 100% of these revenues starting September of last year to pay for District Court services. Total revenues received to-date are \$67,000.

Offsetting the above declines are:

- **Property tax** collections, which are \$566,000 above budget at this point. Collections through the first quarter of 2006 are about the same as 2005 year-end as the majority of these taxes will be received in May/June and October/November. In 2005, taxes were higher than anticipated due to final assessment values from the King County Assessor for the state's public utilities such as Puget Sound Energy and Verizon.
- **Electric and Natural Gas utility tax revenues** continued to come in higher than planned due to rate increases by Puget Sound Energy in 2005. At \$6.2 million, these taxes are approximately 9.5% above budget.
- **Business License fees** have exceeded the biennial budget by \$164,000 or 5%. This represents nearly all of the collections the City expects for the biennium as most of this revenue is collected during the first quarter of the year. Overall, taxable employees for 2005 and 2006 are approximately 3% higher than anticipated.
- **Development review fees** continued to come in stronger than anticipated primarily due to residential permits. Fees totaled \$5.5 million which represent 78% of the biennial budget. Residential building permit fees at \$1.6 million have already surpassed their biennial budget of \$1.4 million. Commercial activity is still low but is expected to pick up in the second quarter of 2006 as the planned expansion of the Microsoft campus shifts into high gear. It is important to note that because the City was previously subsidizing this function by 50%, the higher development review fees only reduce the General Fund subsidy. At this point, the development review subsidy is around 20% with the goal to reduce it to 10% to 15%, consistent with Council policies.

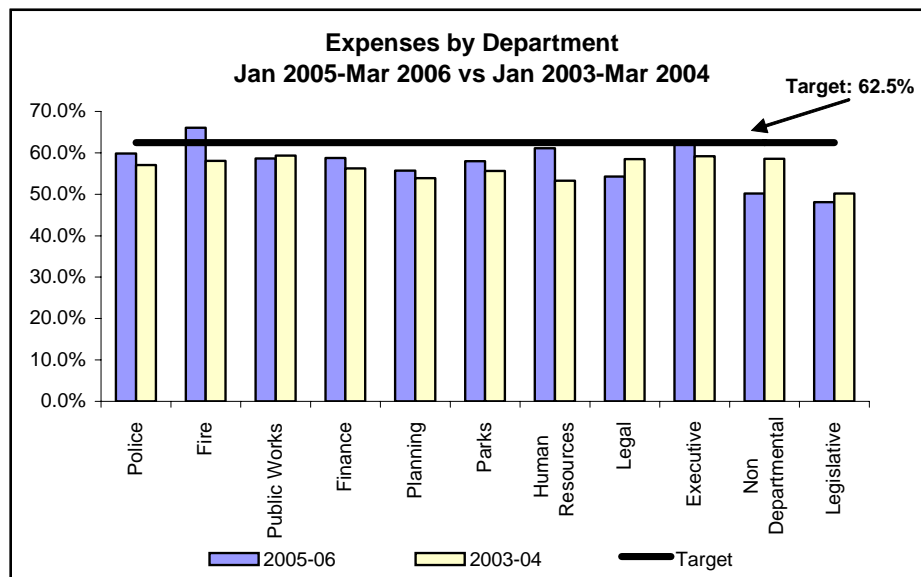
- The City will be receiving an additional \$359,000 from **Fire District 34** in 2006 which represents its share of the unbudgeted overtime incurred within the Fire Department during 2005. Fire spent \$1.1 million on overtime in 2005, exceeding its overtime budget by approximately \$700,000. Under the current contract, a financial reconciliation of Fire Department costs versus budget is prepared at the end of each year and any over/under payments are corrected between the City and District.

Expenditures

As of the end of the first quarter, departmental expenditures totaled \$65.6 million or 59% of the biennial budget. This figure is low as it does not include several large outstanding liabilities. When these costs are taken into account, the City's expenditure level increased to \$67.5 million or 61% of budget. These liabilities include unsettled labor contracts for several of the bargaining units for 2005 and/or 2006, pending arbitration on health benefits for the fire union, higher worker compensation claims and a transfer to the CIP for City Hall.

After several years of cost cutting, expenditure rates are trending higher in all of the operating departments which include Fire, Police, Parks, Planning, Finance, Human Resources and Executive. Expenses are running approximately 1.5% below budget after adjusting for outstanding liabilities. This suggests departments will spend all or nearly all of their budgets for the biennium reflecting the tightness that has been built into operations.

Of particular note at this time is the Fire Department. Overtime continues to pose a challenge for the department. The department spent \$1.1 million in overtime during 2005 versus a budget of \$364,000 and has spent \$128,000 during the three months of 2006 as compared to a budget of \$364,000. Helping to offset a portion of this cost will be the \$359,000 reimbursement from Fire District 34 relating to 2005 unbudgeted overtime. It is important to note that even with this reimbursement that most of the financial responsibility for the cost overrun will rest with the City.



Source: City Financial Records; Above figures does not include \$1.9 million in outstanding liabilities for unsettled labor contracts to date; pending arbitration on health benefits for the fire union; higher worker compensation claim costs; and transfer of surplus beginning fund balance to the CIP for City Hall.

As part of the adopted 2005-06 budget, the City established a \$1.0 million contingency to pay for anticipated increases in PERS/LEOFF rates. Of this initial balance, \$437,329 was spent in 2005 and 2006, leaving \$594,000 available for carryover into the 2007-08 biennium.

The City has received notice that employer rates will increase once again in 2007 and 2008 for certain retirement systems as shown below, absorbing all of the remaining contingency.

**State Retirement Fund Contribution Rates
Employer Portion, 2006 - 2008**

	2006	2007	2008	% Change 2008 vs 2006
PERS 1	3.69%	6.82%	7.50%	103%
PERS 2	3.69%	6.82%	7.50%	103%
LEOFF 1	.19%	.19%	.19%	Unchanged
LEOFF 2	4.87%	5.32%	5.43%	12%

Source: Wa. State Dept of Retirement Systems and Wa. State Legislature; 2007 and 2008 are estimated based upon bills enacted during the 2006 legislative session

While these increases will be significant, it is important to note that retirement costs represent only 2% of the General Fund budget.

ENTERPRISE FUNDS

Each of the City's three utilities continued to operate within budget. However, all of them are facing fiscal challenges as explained below. First, the City's Water/Wastewater Utility continued to struggle as consumption is down 7.4% compared to the previous biennium and rate revenues are flat despite a 2% increase in rates in 2005. Second, the UPD continues to operate at a loss requiring the use of a portion of its fund balance to sustain ongoing operations. And finally, the Stormwater Management Utility does not have enough money to adequately fund its CIP program due to the Council's decision to maintain the rate at \$11.50/month.

The following sections provide more details about the performance of each Utility.

Water/Wastewater Utility

The financial position of the Utility continued to deteriorate in the first quarter of 2006. Ongoing revenues of \$25.3 million were slightly lower than expenses of \$25.4 million requiring the use of a portion of the Utility's fund balance.

Revenue from operations at \$25.3 million was 2.3% below budget due to lower than expected water sales. Water sales totaled \$13.2 million and were nearly identical to levels collected for the same period last biennium, despite a 2% increase in rates. For the current biennium, water consumption declined in all customer categories with an overall decrease of 7.4%.

**In-City Utility Water consumption by Customer Classification
January 2005-March 2006 vs January 2003-March 2004**

Customer Class	January 2005- March 2006	January 2003- March 2004	% Change 2006 v. 2005
Irrigation	46.9	59.9	-21.7%
Multifamily	79.3	82.6	-3.6%
Commercial	101.0	101.5	-.5%
Residential	<u>106.6</u>	<u>116.6</u>	<u>-8.6%</u>
Total	333.8	360.6	-7.4%

Source: Redmond Utility Billing; millions of cubic feet of water purchased

Partially offsetting this weakness was the CWA regional capital facility charges. Collections from CWA totaled \$1.4 million, or 93% of budget. Strong collections in this area are the result of a surge in applications at the end of 2005 preceding a scheduled increase in CWA connection charges in January of this year.

Expenditures were also within budget and is similar to the same period last biennium although there have been some significant changes within the categories. For example, Metro has increased primarily due to a 9.4% increase in Metro fees in 2005, water purchase costs are lower by 6.3% under the CWA billing formula and debt service has declined as the City paid off all its revenue bonds in 2003-04.

From an income statement perspective, the Utility ended the first quarter with a loss of \$618,000 as compared to a loss of \$507,500 for the same period last year. A loss is typical during the first quarter as this is when consumption is at its lowest. Revenues in the summer normally offset the loss experienced during the earlier part of the year. However, given the magnitude of the loss there is a possibility this may not occur. The Utility's financial condition will need to be monitored closely for the rest of the year.

Expenditures for the **Water/Wastewater CIP** program totaled \$8.4 million or 59% of budget and compares to \$6.2 million for the same period last biennium. Expenditures for the Utility's CIP program has increased substantially as a result of costs related to the rehabilitation of the City's wells including construction of well #5. Expenditures for well rehabilitation during the previous biennium were delayed due to the facility design changes related to water treatment.

Urban Planned Utility (UPD)

Expenses continued to exceed revenues in this utility consistent with prior year trends. Fund balance is being used to partially underwrite operations. Revenues from operations totaled \$4.5 million compared to expenditures of \$4.7 million. The Utility's fund balance is approximately \$900,000 at this point in time.

Water consumption in the UPD grew significantly for the residential and commercial customer categories reflecting increasing occupancy levels in single family homes and the opening of two retail parks. However, activity from these two sectors were offset by a decline in irrigation water consumption due primarily to the Trilogy golf course not using as much water now that the course is established. As a result, water and sewer sales and Metro are running at 36% to 37% of budget and compare to a 50% collection level for the same period last biennium.

UPD Utility Water Consumption by Customer Classification January 2005-March 2006 vs January 2003-March 2004

Customer Class	January 2005- March 2006	January 2003- March 2004	% Change 2006 v. 2005
Irrigation	4.8	9.3	-48.4%
Multifamily	1.9	1.6	18.8%
Commercial	1.3	.6	117.7%
Residential	<u>14.6</u>	<u>7.6</u>	<u>92.1%</u>
Total	22.6	19.1	18.3%

Source: Redmond Utility Billing; millions of cubic feet of water purchased

Engineering revenues and the depreciation rate surcharge were also below budget. Delays in construction activity in the business park contributed to weak collections in both of these areas.

Higher fees from the CWA regional capital facility charge are masking the slower growth in revenues. Collections totaled nearly \$1.2 million, surpassing the biennial budget. Activity has been very strong as a result of a surge in water meter installations in late 2005 just prior to a scheduled doubling of the CWA connection fees in 2006.

From an operating income perspective, the Utility suffered a loss of \$387,000 at the end of the first quarter as compared to a loss of \$424,000 last year. Given the large decline in consumption by irrigation customers, revenue during the summer may not be sufficient to close the gap incurred so far. City staff will monitor UPD water sales and financial performance closely for the remainder of 2006.

No expenditures were incurred in the UPDs CIP. The only project, installation of electronic security systems, is expected to occur later this year.

Stormwater Management Utility

Stormwater's operating position is relatively stable in comparison with the previous biennium. The fund balance is approximately \$1.4 million and virtually unchanged. However, shifts have occurred in the composition of revenues and expenses -- cash on hand is less, revenues are slightly higher and expenses are lower. Of particular note is the transfer to the CIP which is \$900,000 lower than the previous period. This was anticipated as the current rate of \$11.50/month enables the Utility to only partially address identified CIP needs.

From a financial statement perspective, the utility ended the quarter with operating income of \$462,000 and was comparable to the operating position of the utility one year ago.

Expenditures for the Stormwater Management CIP program totaled \$5.1 million and compares to \$1.8 million for the same period last biennium. Significant CIP projects to date include Idylwood Stream Upper Reach and NE 116th Street Culvert replacement. Expenditures during the same period last biennium were inordinately low due to delays as a result of SEPA and US fish and Wildlife permitting issues, which have since been resolved.

CAPITAL INVESTMENT PROGRAM

Overall, revenues came in stronger than expected at 82% of the biennial budget through the first quarter of 2006 and was sufficient to support expenditures. The expenditure rate for the City's General CIP was 42% for the period January 2005 through March 2006 and is comparable to the amount spent during the previous biennium.

Revenues

At 82% of budget, revenues are exceeding budget with growth primarily fueled by stronger collections in real estate excise tax, business license surcharge, impact fees, and private contributions. The detail below provides further information.

Real Estate Excise Taxes (REET). Collections to date have exceeded the biennial budget, totaling \$6 million or 111% of budget through the first quarter and compare to \$3.4 million collected for the same period last biennium. Rising real estate prices and growth in transaction volume have fueled this revenue source.

Business License Surcharge. Business license revenues at \$7.2 million have exceeded the biennial budget by 3% primarily due to a higher than expected increase in the number of taxable employees in the City.. The CIP receives \$55 of the \$83.25 head tax with the remaining \$28.25 going to the General Fund.

Impact Fees. The City collected \$333,000 in impact fees in the first quarter of 2006, raising the total for the biennium to over \$2.2 million or 81% of budget. Transportation received \$1,197,000, Parks \$947,000, and Fire \$81,000.

Private/Other Contributions. This category increased by \$1.5 million during the first quarter of 2006 bringing total receipts to \$2.1 million for the biennium. A large contribution was received in 2006 from Microsoft relating to contracted mitigation fees as part of their development agreement.

Investment Interest. Interest earnings totaled \$1.4 million and were 15% higher than budget. Interest earnings remain above budget and reflect higher cash balances in the General CIP relative to the rest of the City.

Operating Transfers. Operating transfers are at 79% of the biennium budget and are on target with the budget.

Expenditures

Spending levels in the City's General CIP program totaled \$29.1 million or 42% of budget. The rate of expenditure is comparable to the same period in the last biennium. The largest expenditures were noted in Transportation, Parks, Fire and General Government. Below is a summary of the major highlights within each functional area.

The **Transportation** functional area spent approximately \$18.3 million or 50% of its budget. Major project expenditures include Union Hill Road Widening (\$1.9 million), Bear Creek Parkway Extension (\$1.8 million), NE 116th St Corridor (\$1.7 million), NE 83rd Street Improvements (\$1.2 million), street resurfacing projects (\$977,000), and the 185th Avenue extension (\$838,000). The remaining expenditures were spread over 61 smaller projects.

General Government CIP expenditures of almost \$3.8 million represent 36% of the biennial budget. Major projects for this functional area include: \$3.2 million for furnishing, rent, and project management related to the new City Hall, \$220,000 for Community/Historical Treasures, \$160,000 for affordable housing, and a \$138,000 transfer to the Transportation CIP to reimburse the fund for impact fee waivers for the Village at the Overlake Station.

Park CIP expenditures totaled \$5 million, or 41% of budget. Major projects include: Bear Evans Creek Phase I (\$1.5 million), Hartman Park field lighting (\$806,000), Southeast Redmond Neighborhood Park (\$563,000), and Bear Creek Trail/Avondale Road (\$406,000). Debt service payments of \$1.7 million for the Grasslawn and Perrigo Park improvements comprise a significant part of the Park CIP expenses.

The **Fire** CIP functional area spent \$1.6 million or 91% of budget. Approximately half of this amount was spent in the first quarter of 2006 on the repair of Station 16. Repairs to this building, which included repairing a leaking roof and replacing the failed siding, will be completed by late spring 2006. The remaining expenditures for this functional area included scheduled transfers to the Park CIP, transfers to the Fire Equipment Replacement Reserve Fund and purchase of mobile data terminals.

Police CIP expenditures are \$446,000 or 10% of budget. The low rate of expenditure is due to the timing of construction for the new evidence area. Construction is anticipated to start in spring 2006. Significant project expenditures included: \$117,000 for criminal justice information integration, \$90,000 for the new evidence area, \$81,000 for vehicle locator equipment, \$58,000 in mobile data terminals, \$55,000 in transfers to the Park CIP, and \$42,000 in cameras for police vehicles.

INVESTMENTS

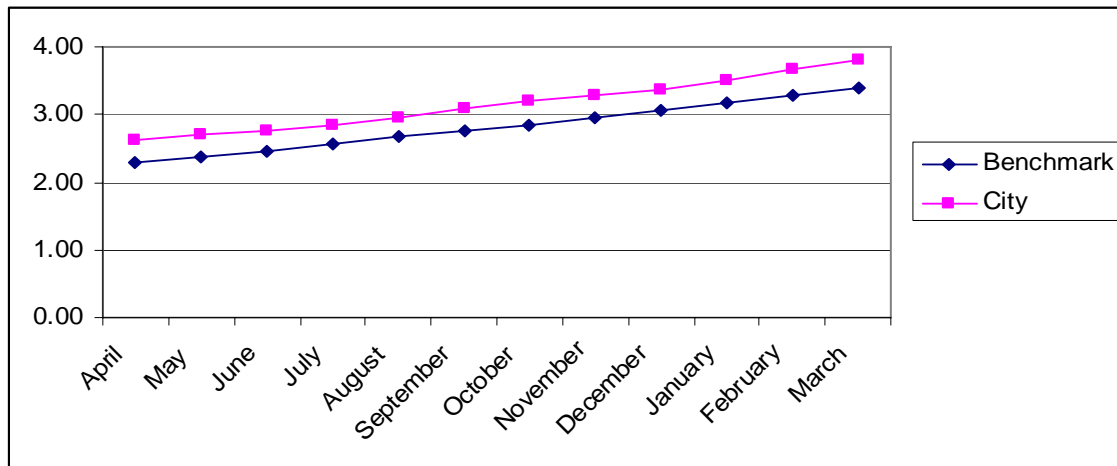
The City's investment portfolio continued to meet the primary objectives of the investment policy: safety of principal, liquidity of funds, and attaining a market rate of return given the risk constraints and diversification guidelines. The investment portfolio increased only slightly from \$104.8 million at the start of the year to \$105 million at the end of the 1st quarter, an increase of .2%.

The table below provides a snapshot of the city's portfolio and performance at March 31, 2006.

Investment Type	Book Value	Percentage of Portfolio	Days to Maturity	Yield To Maturity
State Investment Pool	\$ 6,039,742	5.75%	1	4.57%
Certificates of Deposit	25,902,631	24.67%	215	4.21%
Federal Agency Issues	67,699,978	64.47%	313	3.59%
Federal Agency Discount Issues	1,980,230	1.89%	135	2.55%
Bankers Acceptances	1,984,188	1.89%	62	4.52%
Money Market Fund	1,398,785	1.33%	1	N/A
	\$ 105,005,554	100.00%	259	3.80%

The City currently benchmarks its portfolio to the 2-year average of the 2-year Treasury note. During the 1st quarter the City was able to outperform its benchmark earning an average interest rate of 3.67% versus the benchmark average of 3.28%. The following chart compares the City's rate of return versus the benchmark.

**Portfolio Benchmark Comparison
April 2005 – March 2006**



**General Fund Revenues and Expenditures
January 1, 2005 - March 31, 2006**

	2005-06 Budget	Jan 1, 2005 - Mar 31, 2006	% of Budget	Jan 1, 2003 - Mar 31, 2004	% of Budget	2003 04 Budget
BEGINNING BALANCES						
Beginning fund balance		1,730,954				
Economic Contingency - used		1,600,000				
Economic Contingency - remaining		1,700,000				
Total Beginning Resources	3,159,807	5,030,954	159.2%	5,037,773	303.0%	1,662,829
TAXES						
SALES AND USE TAXES						
Sales Tx	36,562,000	21,660,585	58.9%	21,732,992	62.2%	34,950,000
Use Tx	86,100	81,121	94.2%	64,510	#DIV/0!	0
Sales Tx on CJ	1,981,171	1,265,162	63.9%	1,101,941	56.8%	1,940,000
Total - Sales Taxes	38,629,271	23,006,868	59.6%	22,899,443	62.1%	36,890,000
SALES TAX TRANSFER TO CIP						
Sales Tx on Construction	(2,200,000)	(1,375,000)	62.5%	(1,375,005)	62.5%	(2,200,000)
PROPERTY TAXES						
Property Tx	21,342,852	11,179,270	52.4%	9,833,042	49.0%	20,076,000
UTILITY TAXES						
Electric	7,847,841	5,231,774	66.7%	4,394,630	59.4%	7,394,000
Telephone	7,381,013	3,825,780	51.8%	4,070,109	54.7%	7,447,000
Nat Gas	1,540,730	1,503,529	97.6%	971,484	48.6%	1,998,000
Total - Utility Taxes	16,769,584	10,561,083	63.0%	9,436,223	56.0%	16,839,000
OTHER TAXES						
Cable TV	1,120,209	590,732	52.7%	602,096	66.6%	904,000
Admissions Tax	977,505	577,369	59.1%	575,606	63.7%	903,000
Garbage	913,545	457,696	50.1%	564,436	61.3%	921,000
Gaming Tax	88,104	48,931	55.5%	51,719	43.1%	120,000
Total - Other Taxes	3,099,363	1,674,729	54.0%	1,793,857	63.0%	2,848,000
TOTAL TAXES	77,641,070	45,046,950	58.0%	42,587,561	57.2%	74,453,000
BUSN LICENSES AND DEVELOPMENT FEES						
BUSINESS LICENSE						
Busn License	3,530,277	3,694,171	104.6%	1,685,868	107.6%	1,567,000
DEVELOPMENT REVENUES						
Develop Revenue - plumbing, electrical, heating	1,535,000	1,012,421	66.0%	876,081	57.2%	1,531,000
Develop Revenue - Bldg insp & Plan Reviews	828,862	642,628	77.5%	511,781	49.1%	1,043,000
Develop Revenue - Planning Fees	800,000	603,486	75.4%	507,335	56.4%	900,000
Develop Revenue - Engineering Plan Check Fees	500,000	461,806	92.4%	145,811	13.3%	1,100,000
Develop Revenue - Tech Surcharge	179,146	168,760	94.2%	110,197	58.0%	190,000
Develop Revenue - Resid build permits	1,400,000	1,620,053	115.7%	1,107,135	76.4%	1,450,000
Develop Revenue - Commercial build permits	700,000	388,763	55.5%	324,352	51.5%	630,000
Develop Revenue - TI build permits	600,000	494,341	82.4%	360,714	75.1%	480,000
Develop Revenue - MF build permits	500,000	170,768	34.2%	179,856	30.0%	600,000
Total - Development Revenues	7,043,008	5,563,027	79.0%	4,123,263	52.0%	7,924,000

**General Fund Revenues and Expenditures
January 1, 2005 - March 31, 2006**

	Jan 1, 2005 - Mar			Jan 1, 2003 - Mar		
	2005-06 Budget	31, 2006	% of Budget	31, 2004	% of Budget	2003 04 Budget
INTERGOVERNMENTAL						
FIRE AND EMERGENCY SERVICE CONTRACTS						
Fire: KC FD #34	8,439,944	3,698,609	43.8%	3,436,976	46.8%	7,350,820
Fire: KC EMS	900,000	505,274	56.1%	444,996	55.6%	800,000
Fire: Sammamish	667,894	667,894	100.0%	667,894	50.0%	1,336,000
Fire: Eqt Maint	100,000	64,493	64.5%	58,647	39.1%	150,000
Police Dispatch	231,018	111,085	48.1%	115,509	52.0%	222,000
Criminal justice distributions	85,800	64,491	75.2%	63,426	75.5%	84,000
Total - Fire and Emergency Services	10,424,656	5,111,846	49.0%	4,787,447	48.1%	9,942,820
OVERHEAD FEES AND STATE SHARED						
Overhead Fees	4,509,537	2,799,260	62.1%	2,920,731	60.2%	4,853,173
State shared: Motor Vehicle Fuel Taxes	1,300,000	862,728	66.4%	808,744	59.2%	1,366,000
State shared: Liquor Profits and Taxes	962,789	652,465	67.8%	572,906	70.6%	812,000
Federal/State/Local Grants	92,066	95,789	104.0%	97,249	58.2%	167,067
Total - Overhead fees and state shared	6,864,392	4,410,241	64.2%	4,399,630	61.1%	7,198,240
Total - Intergovernmental	17,289,048	9,522,087	55.1%	9,187,077	53.6%	17,141,060
OTHER						
Investment Interest	669,564	388,797	58.1%	478,717	19.5%	2,450,000
Licenses & Permits	222,569	101,121	45.4%	121,918	91.9%	132,700
Fines and Forfeits	198,652	66,529	33.5%	261,438	88.9%	294,000
Facility Use/Rent	169,962	183,099	107.7%	106,533	133.2%	80,000
Busn License Penalties	118,214	95,619	80.9%	443,262	738.8%	60,000
Other	761,570	696,187	91.4%	989,401	109.1%	906,987
Total - Other	2,140,531	1,531,352	71.5%	2,401,268	61.2%	3,923,687
TOTAL REVENUES	110,803,741	70,388,541	63.5%	65,022,809	61.0%	106,671,576
Total Revenues (excl. ec. conting)	110,803,741	68,688,541	62.0%	65,022,809	61.0%	106,671,576
EXPENDITURES BY DEPT						
Police	23,017,640	13,778,303	59.9%	11,753,730	57.1%	20,595,988
Fire	24,191,560	15,990,593	66.1%	13,768,628	58.1%	23,705,055
Public Works	15,041,741	8,820,324	58.6%	9,577,796	59.3%	16,141,531
Finance	11,045,855	6,493,906	58.8%	5,718,033	56.3%	10,163,274
Planning	10,663,366	5,939,932	55.7%	5,881,843	53.9%	10,905,727
Parks	8,570,113	4,967,266	58.0%	5,055,042	55.6%	9,092,185
Human Resources	1,824,103	1,115,090	61.1%	926,875	53.3%	1,740,336
Legal	1,393,066	756,186	54.3%	798,418	58.5%	1,365,084
Executive	1,086,552	681,732	62.7%	595,551	59.2%	1,006,297
Non Departmental	13,645,113	6,849,967	50.2%	6,814,757	58.5%	11,641,243
Legislative	324,632	156,318	48.2%	157,940	50.2%	314,856
Outstanding liabilities [a]	0	1,926,441	n/a	0	0.0%	0
TOTAL EXPENDITURES	110,803,741	67,476,058	60.9%	61,048,611	57.2%	106,671,576
Ending Fund Balance	0	1,212,483		3,974,198		0

[a] Outstanding liabilities include labor settlements for several of the City's labor groups for 2005 and 2006, higher worker's compensation claims pending arbitration for health benefits for the Fire union, and the transfer of fund balance to the CIP for City Hall furnishings.

**City W/WW Utility Operating Budget Summary
January 1, 2005 - March 31, 2006**

Water / Wastewater Utility	2005-06 Budget	Jan 1, 2005 - Mar 31, 2006	% of Budget	Jan 1, 2003 - Mar 31, 2004	% of Budget
Beginning Fund Balance	4,246,907	4,246,907	100.0%	1,689,630	0.0%
Engineering Fees	533,714	268,089	50.2%	277,975	50.5%
Water & Sewer Rate Revenues	24,170,910	13,172,950	54.5%	13,179,785	60.3%
Regional Capital Facility Charge Revenue	1,545,000	1,439,041	93.1%	21,659	3.9%
Metro Sales	15,635,376	9,753,751	62.4%	8,737,575	63.7%
Debt Retirement	-	-	0.0%	1,863,009	81.6%
Transfer in from construction					
Other Revenues	434,789	648,594	149.2%	423,243	134.6%
Total Revenue	42,319,789	25,282,425	59.7%	24,503,246	62.4%
Total Resources Including Beginning Fund Balance	46,566,696	29,529,332	63.4%	26,192,876	63.5%
Operating Expenditures	11,819,256	6,491,463	54.9%	6,315,043	66.9%
Metro Wastewater Treatment	15,635,376	9,828,059	62.9%	8,747,202	63.7%
Water Purchases	6,102,540	3,399,392	55.7%	3,628,484	57.0%
Regional Capital Facility Charge pass-thru to CWA	1,500,000	1,305,841	87.1%	-	0.0%
WWW Revenue Bonds Debt Service	301,153	191,101	63.5%	2,820,000	84.9%
Transfer to General Fund	2,404,288	1,491,505	62.0%	1,522,356	54.6%
Transfers to CIP	4,685,755	2,714,550	57.9%	2,544,402	67.2%
Total Expenditures before Ending Fund Balance	42,448,368	25,421,911	59.9%	25,577,487	64.0%
Ending Fund Balance	4,118,328				
Total Expenditures including Ending Fund Balance	46,566,696				
Operating Income (Loss)					
Jan - Mar 2006	(618,054)				
Jan - Mar 2005	(507,426)				
Water/Wastewater CIP					
Capital improvements	14,150,000	8,404,649	59.4%	6,249,047	34.1%
Fund Balance	5,951,071				
Total	20,101,071				

**City SWM Utility Operating Budget Summary
January 1, 2005 - December 31, 2005**

Stormwater Mgmt Utility	2005-06 Budget	Jan 1, 2005 - Mar 31, 2006	% of Budget	Jan 1, 2003 - Mar 31, 2004	% of Budget
Beginning Fund Balance	1,065,714	1,065,714	100.0%	1,925,644	0.0%
Engineering Fees	225,801	112,033	49.6%	122,660	61.3%
SWM Rate Revenue	14,030,267	8,865,679	63.2%	6,325,518	60.1%
CIP Surcharge	0	0	0.0%	2,232,888	60.1%
Other Revenue	34,738	43,096	124.1%	36,913	89.6%
Total Revenue	14,290,806	9,020,808	63.1%	8,717,979	60.2%
Total Resources Including Beginning Fund Balance	15,356,520	10,086,522	65.7%	10,643,623	64.9%
Salaries and benefits	4,240,530	2,901,827	68.4%	2,774,134	75.2%
Supplies	329,500	281,428	85.4%	328,651	44.8%
Services	1,773,285	726,542	41.0%	458,914	38.1%
Transfer to CIP	4,742,819	2,944,710	62.1%	3,865,202	62.6%
Debt service payments	37,219	0	0.0%	0	0.0%
Interfund transfers	2,815,801	1,753,244	62.3%	1,665,750	64.5%
Total Expenditures before Ending Fund Balance	13,939,154	8,607,751	61.8%	9,092,651	63.2%
Ending Fund Balance	1,417,366				
Total Expenditures including Ending Fund Balance	15,356,520				
Operating Income (Loss)					
Jan - Mar 2006	461,839				
Jan - Mar 2005	452,714				
SWM CIP					
Capital improvements	11,414,589	5,089,937	44.6%	1,779,840	21.2%
Fund Balance	1,136,692				
Total	12,551,281				

UPD Utility Operating Budget Summary
January 1, 2005 - March 31, 2006

UPD Utility	2005-06 Budget	Jan 1, 2005 - Mar 31, 2006	% of Budget	Jan 1, 2003 - Mar 31, 2004	% of Budget
Beginning Fund Balance	1,109,332	1,109,332	100.0%	1,294,416	0.0%
Engineering Fees	667,768	284,806	42.7%	388,393	48.5%
Water & Sewer Rate Revenue	4,484,833	1,591,138	35.5%	1,275,729	50.3%
Regional Capital Facility Charge Revenue	1,067,420	1,158,440	108.5%	0	0.0%
Metro Sales	2,015,165	753,137	37.4%	320,882	50.0%
Other Revenue	525,835	300,927	57.2%	435,521	80.5%
UPD Depr Rate Surcharge	732,750	363,250	49.6%	553,800	73.8%
Total Revenue	9,493,771	4,451,698	46.9%	2,974,325	46.0%
Total Resources Including Beginning Fund Balance	10,603,103	5,561,030	52.4%	4,268,741	55.0%
Operating Expenditures	2,439,656	1,018,299	41.7%	1,046,521	48.6%
Metro Wastewater Treatment	1,810,372	754,690	41.7%	320,881	60.6%
Water Purchases	1,599,039	889,018	55.6%	544,457	58.3%
Regional Capital Facility Charge pass-thru to CWA	1,000,000	1,120,817	112.1%	0	0.0%
Transfer to CIP	2,256,773	921,851	40.8%	1,279,735	49.2%
Total Expenditures before Ending Fund Balance	9,105,840	4,704,675	51.7%	3,191,594	43.0%
Ending Fund Balance	1,497,263				
Total Expenditures including Ending Fund Balance	10,603,103				
<hr/>					
Operating Income (Loss)					
Jan - Mar 2006	(387,644)				
Jan - Mar 2005	(424,033)				
<hr/>					
UPD CIP					
Capital improvements	150,000	0	0.0%	894,014	153.9%
Fund Balance	4,601,166				
Total	4,751,166				

Capital Improvement Program Revenues and Expenditures
January 1, 2005 - March 31, 2006

REVENUE CATEGORIES	2005-06 Budget	Jan 2005 - Mar 2006	% of Budget	Jan 2003 - Mar 2004	% of Budget
General Fund	5,571,516	3,504,042	62.9%	3,429,738	59.3%
Real Estate Excise Tax (REET)	5,400,000	6,001,103	111.1%	3,443,437	82.0%
Sales Tax on Construction	2,200,000	1,375,000	62.5%	1,375,005	62.5%
Business License Surcharge [1]	7,008,157	7,196,367	102.7%	6,897,500	104.3%
Impact Fees	2,760,000	2,225,806	80.6%	2,583,703	49.8%
Private Contributions	195,340	2,110,526	1080.4%	2,399,026	567.4%
Federal/State/Local Grants	5,380,467	1,678,432	31.2%	1,968,837	32.4%
Investment Interest	1,835,685	1,423,487	77.5%	1,735,322	68.6%
Vehicle registration fees - local Option	0	0		9,992	1.2%
Motor vehicle fuel tax	600,000	404,678	67.4%	378,142	60.6%
Limited Tax G.O. Bond Proceeds	0	0		3,698,472	104.2%
Operating Transfers	14,235,643	11,190,815	78.6%	9,998,044	61.0%
Other Revenue [2]	209,000	144,401	69.1%	3,681,763	79.5%
Major Revenue Source Subtotal	45,395,808	37,254,657	82.1%	41,598,981	70.5%
Capital Lease - City Hall	36,089,000	0	0.0%	0	0.0%
Beginning Fund Balance	48,907,746	46,078,474	94.2%	0	0.0%
TOTAL CIP REVENUES	130,392,554	83,333,131	63.9%	41,598,981	38.9%

CIP FUNCTIONAL AREA EXPENDITURES	2005-06 Budget	Jan 2005 - Mar 2006	% of Budget	Jan 2003 - Mar 2004	% of Budget
Council CIP	3,239,243	0	0.0%	1,500,000	34.1%
Parks CIP	12,282,881	5,032,614	41.0%	10,511,929	56.8%
Transportation CIP [1]	36,448,357	18,264,419	50.1%	26,692,275	44.7%
Fire CIP	1,725,641	1,570,467	91.0%	414,813	10.2%
Police CIP	4,524,029	446,878	9.9%	352,060	10.6%
General Government CIP	10,572,780	3,775,343	35.7%	3,595,214	29.2%
Total CIP Expenditures Subtotal	68,792,931	29,089,721	42.3%	43,066,291	42.1%
Capital Lease - City Hall	36,089,000	0	0.0%	0	0.0%
Real Estate Excise Tax Transfers	9,864,924	6,987,707	70.8%	4,876,934	100.0%
Ending Fund Balance	15,645,699				
TOTAL CIP EXPENDITURES	130,392,554	36,077,428	27.7%	47,943,225	41.8%

[1] Excludes Business Tax dedicated to Transportation Demand Management projects which are accounted for outside of the CIP.

[2] Includes BROTS revenue from City of Bellevue for developer projects and other revenue.